

MANAGING THROUGH UNCERTAINTY. MASTERING NEW REALITIES.

Kellogg Innovation Network (KIN) Dialogue: Fall 2009

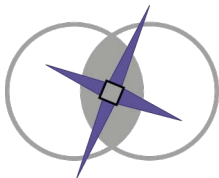
James L. Allen Center

Evanston, Illinois

November 9-10, 2009



Pictured from left to right: Jørn Bang Andersen, Nordic Council of Ministers; Thomas Barnett, Geopolitical Consultant to the Pentagon & White House and New York Times Bestselling Author, *Great Powers: America and the World After Bush*; Polly Flinn, VP, Global Marketing, BP; Paul Epner, Principal, Paul Epner LLC; Alan Landry, Director of Business Development, Land Combat Systems, Raytheon Missile Systems; Robert C. Wolcott, Executive Director, KIN; Nelson Levy, Founder & CEO, CoreTechs; Phil Kotler, Professor, Kellogg School of Management.



**Kellogg Innovation
Network**

DIALOGUE HOST:

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Executive Director

Kellogg Innovation Network (KIN)

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“Many great companies have been started in downturns—IBM for instance. If my hair is on fire, and you can put it out, I’ll pay you for it.”

— Matt McCall, Managing Director, New World Ventures

“If you walk into a bar and shoot two guys on either side of a guy, he’s not just going to sit there. Iran will get a bomb.”

— Dr. Tom Barnett, Geopolitical Consultant to the Pentagon & White House
and New York Times Bestselling Author

“A crisis a terrible thing to waste. How do we take advantage of this event in a non-judgmental fashion; that is, not labeling it positive or negative but rather an opportunity?”

— Denis Browne, Senior Vice President, Business Objects, SAP

“Engineering is the ‘art of the possible’ and marketing is the ‘art of the valuable.’”

— Robert C. Wolcott, Co-founder of the Kellogg Innovation Network

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Principal, Paul Epner LLC

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KIN Research Fellow



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EXECUTIVE SUMMARY

Framing the Conversation

“How do you create strategy in an increasingly uncertain world?” This was the focus of the KIN Fall Dialogue 2009—a tour-de-force of macro-trends and future visions of global affairs, as well as down-to-earth insights on personal productivity. We went deep into experiences with leadership during transformational change and received some strong medicine for corporate turnarounds.

KEY DIALOGUE INSIGHTS

- We are no longer dealing with just predictable cycles but also ‘black swans,’ that is, dramatic and rapid shifts in the global environment.
- Increased complexity and speed of change has created unprecedented ambiguity.
- In our unpredictable world, it is important to have an Early Warning System to identify risks and opportunities.
- Scenarios are an important tool to plan for an unpredictable future.
- Don’t manage the rate of failure, manage the cost of failure.
- If given a choice between an innovative product or innovative business model, choose the business model.
- The KIN is one opportunity to do things outside your normal routine to create unexpected insight.

KEY QUESTIONS

- How can companies develop sound strategy in an unpredictable world? What structures are needed?
- What role can business, your business, play in building true prosperity around the world?
- What does the global gap (arc of instability) mean for your company?
- There is a massive opportunity to engage the 2 billion people, truly poor people, at “the base of the pyramid” in the formal economy, as both consumers and producers. Can your company develop relevant products and services in healthcare, housing, water, nutrition and energy for this massive market?

THEMES

- Increased, atomized, and hard-to-predict competition.
- Emergence of the BRIC countries, especially an avid, aspiring middle class.
- Innovation driven by growing scarcity of resources.
- Globalization and localization at the same time.
- Greater levels of customization required for increasingly fragmented customer groups.



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Monday, November 9, 2009

SESSION 1: PANEL DISCUSSION

Industry Outlooks: Looking to the Future as Everything Changes

"What's really NEW in the global economic downturn?" This panel discussed whether or not there are any truly new phenomenon, or if this crisis is more about magnitude.

Panelists

Mark Kipphut, Director, Strategic Planning, Raytheon

There is no more long-term predictability. The new political landscape has forced a 5-year strategy into 1-year segments. It takes \$65 to \$75 million and 7-10 years of investment for a mid-range technology. There is a need for new tools to help improve predictability. Adversaries are not "playing by the rules," that is, they are not acting like nation-states.

Fabienne Munch, Director, Design Studio, Herman Miller

Competition has become atomized, global and unpredictable. Good has become the new great; that is, customers are changing what they value, and we need to be careful to not give them more than they are willing to pay for. This has been accelerated by the downturn. Product development needs to focus on customer needs, not competitor tactics.

Joe Wheeler, Executive Director, The Service Profit Chain Institute

The depth of cuts in service industries has been enormous, but customers still demand a high level of service.

Discussion

Phillip Kotler: "What's the worst and best that can happen? Can we develop an early warning system to guide effective decision-making?"

Paul Epner: Events are just events. People should spend less time on assigning valence to them and more time determining their response. There's no such thing as good weather or bad weather, just inappropriate clothing.

Nelson Levy/Rob Wolcott: Large companies have the advantage in becoming integrators of ailing companies with good assets. Small companies lack the depth of resources.



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Case Study

Foresight, Insight & Action: Building robust long-term growth strategies
Peter Bryant, President of TransTech and KIN Fellow

The Foresight, Insight and Action process positions a company to take advantage of new opportunities and mitigate emerging threats. The critical question: *What are the forces driving the key markets you're in?* For example, UPS looks 15 years out. It doesn't focus on competitors (FedEx) for long-term strategy but explores what capabilities they may need that no one is thinking about.

Peter showed an example of scenario planning based on the 2 most impactful uncertainties in your business and how to create robust options around technology, portfolio, advocacy and image. Scenario planning is most valuable if focused on possibilities more than 10 years out. Scenario planners may need to be quarantined from their mainstream colleagues.

SESSION 2: GLOBAL PERSPECTIVE

Dr. Thomas P.M. Barnett
Geopolitical Consultant to the Pentagon & White House
New York Times Bestselling Author, *Great Powers: America and the World After Bush*

American's role in the world should be a natural extension of the experience of U.S. history. But many in the U.S. do not understand how long it took us to become what it is. In the U.S., as well as in new democracies, single party rule usually lasts about 50 years before a viable multi-party democracy emerges. The U.S. elected rebel leader (Washington), then hatchet man (Adams), then ideologue (Jefferson). In 1820 Madison ran unopposed. The U.S. doesn't develop two mass political parties until 1840, 64 years later. Andrew Jackson is the first outsider president—he instigates mass ethnic cleansing (Seminole, Trail of Tears).

In the "old days" there was the Department of War and the Department of Navy. The Navy was the promoter of U.S. values and protector of freedom of the seas. As a result of the Navy's early forays around the world, the U.S. has closer relationships with many Asian countries than they have with their neighbors.

The U.S. dollar was created in 1862 to raise money for the civil war. It was our first unified currency. Prior to that, there were 8,000 different banknotes. 1865 to 1900 saw the consolidation of the U.S. West; this is the metaphor for today, not great power mercantilism. The straighter your borders, the more likely someone drew them for you. Think about the U.S. west of the Mississippi. Colorado is a government creation. The Brooklyn Bridge was built in 1875 and Custer's Last Stand occurred in 1876. We had technological/economic development and counter insurgency at the same time.

Theodore Roosevelt was the first transcendent leader for this rising power. He reinvents himself in the West and proceeds to knit together regional economies into a national brand. In the years ahead, the U.S. stayed focused on the middle class, and less on the poor (Communism) or the wealthy (monarchy).



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Implications and Insights

Connectivity creates stability...there are 2 trillion reasons we won't go to war with China. In the poor, unstable countries—the Arc of Instability—often 2-3 commodities drive the economy, which allow for easier cooption/corruption by elites, slowing middle class development.

Malthus was right, up to his day. In the prior 10,000 years, food production dictated population growth and limits. But this trend was ending just as he observed and documented his theory. He has been wrong since the 1800s!



In the realm of religion, some adapt to new abundance (evangelical) while others reject (fundamentalism). The 2000s will be the most religious century ever, centered in China. Currently, there are 100 million Catholics in China. This will lead social reform around the world.

Macro Trends and Predictions

Translate them into what is important for your business...

- Consumer demand will be defined by an emergence of a broad middle class mainly in China and India.
- China will get old before it gets rich
- Turkey will be an increasingly important bridge between East and West
- Mass violence disappears when a country reaches \$3,000 in average income
- Food defines 21st Century security. By 2030, 50% increase in food demand. Countries are purchasing arable land in other countries. Russia has the potential to dramatically increase food production. They have lots of arable land and 20% of U.S. agricultural efficiency. Climate change may accelerate this process.
- We will see a massive increase in the globalization of food and water.
- Scarcity of raw materials will trigger a revolution in resource utilization around 2020, though not necessarily increase of standard of living.
- By 2050, existence will be defined by climate change. Global population tops out at 9-9.5 billion.

- SWAG: Cuba will be the 51st U.S. state.



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SESSION 3: PERSONAL DEVELOPMENT

Jack Groppe

The Executive as a "Corporate Athlete"

Every day of life has the potential to be a storm. Spiritual, mental, physical and emotional training help prepare for storms. Businesses don't typically invest in this type of training because they don't see a ROI. The secret to corporate success is when employees feel ownership for the corporate mission.



Just like in physical training, you must train outside of your routine to grow. And you must manage your energy, not just your time. Full engagement is defined as the acquired ability to intentionally invest your full and best energy...right here...right now. You can achieve recovery in short cycles, with awareness and permission.

How do we create cultures of high performance and health (physical, emotional, mental and spiritual)? If you feel you're on a treadmill...running like crazy and getting nowhere...then you're living too linear a life.

Bottom line: Managing energy, not just time, becomes the key to extraordinary results. We have to learn intentionality and boundaries to break old habits.

The story determines how we process the data. (Dalai Lama: Emptiness and interpretation)

Process

- Ultimate Mission
- Training Mission
- Old Story
- New Story
- Supporting Rituals
- Accountability

DAY 1 DEBRIEF

Big companies are exposed to more markets; therefore, they have the potential to learn more. Do we need research on the ROI of well-done strategic planning and scenario planning?



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Tuesday, November 10, 2009

SESSION 4: EXECUTIVE PANEL

When Things Really Get Tough: Lessons from Corporate Turnarounds

Panel Host:

Professor Jim Shein, Kellogg School of Management

Panelists:

Michael Buenzow, Senior Managing Director, FTI Consulting, Inc.

Mitchell Rasky, Managing Director, The PrivateBank

Stephanie Slavkin, Director, Special Assets, Harris Bank Corporation

Daniel Wikel, Managing Director, Huron Consulting Advisory Services

5 Stages

1. Blinded Phase
2. Inaction Phase
3. Faulty Action Phase (doing something, but the wrong something)
4. Crisis Phase (bleeding cash, going downhill fast, losing people)
5. Dissolution Phase

Analysis of the current situation should focus on three areas: strategies, operations and finance. A valuable tool in bankruptcy analytics is the Altman Z-score. It is highly correlated to bankruptcy within 1-2 years. It can be used internally for your company or externally for your customers and suppliers.

Key Signals

- Lagging signals: analysis of financial statements
- Leading signals: receivables, aging receivables, inventory performance
- External signals: macroeconomic activity

The bankruptcy process is messy. Don't get good at it; don't internalize it. Use outsiders to protect the organization from the thinking necessary.



The "stalking horse" buyer is an important player for setting the minimum bid. Auctions can be a very fast, technical legal process and you need special capabilities to take advantage of it. If buying distressed assets outside of an auction, it is important to seek a "fairness opinion" to provide an objective assessment of the opportunity and to potentially protect yourself from shareholders claiming you paid too much.



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SESSION 5: EXECUTIVE PERSPECTIVE

Jeff Scott, Managing Director, LexisNexis
Former CTO, Thomson Financial

Long-term Strategy through Times of Transformational Change

Jeff led the long-term transformation of Thomson Financial from a second-tier but fast growing player in financial information and analytics to a marketplace leader. This was accomplished in the face of the dotcom crash and September 11 attacks, both pivotal events for the company and its leading customers.



Main Advice:

- Don't homogenize, synchronize.
- Consider use of blogs as a research source.
- Need to listen, inject ideas, & listen again.
- Look for disruptive threats to every business.
- Be rigorous about talent management. If you don't have the right people, change it.
- Keep one person from mother ship to manage the cultural/functional transition.
- Implement rotations into the field from management.
- There is extreme power in names...for better or worse.

A useful tool for understanding broader customer needs is the "3 minutes exercise," What are people doing 3 minutes before and after using your product/service? Is there a pain point in there that we can address? Are customers re-engineering your product/service to meet their needs? Learn from that.

Business models can change very quickly, often enabled by technology. One needs foresight to see where these things may come from. Strategy provides a context for dealing with temporary ups and downs.



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REFLECTIONS FROM THE GROUP BREAKOUT AND FINAL PLENARY SESSIONS

Incorporating what was learned over the previous two days, KIN delegates worked in small, leader-facilitated groups to reflect upon what resonated and how what they learned could inform both their company strategy and also their individual goals. Key take-aways reported and discussed in the subsequent final plenary session included the following:

- Leverage your entire business ecosystem
 - Acknowledge atomized and unpredictable competition. Don't base strategy on current competitors.
 - Prepare for rapid changes in customer demand
- Consider the power of social networking, but beware of social network fatigue
- Eat breakfast
- Key Leadership behaviors:
 - Embody perpetual optimism
 - Create a fun workplace
 - Value the individual
 - Be credible
 - Be relevant
 - Foster a performance culture
- Use simulations as part of your long-term strategy process
- Be careful of dogma
- Look at the disparity between gender populations
- Knowledge has an economy of scale
- Uncertainty and ambiguity are the new normal
- Branding is increasingly important for the success of initiatives within a large organization
- Choosing the correct language and call-to-action is critical

We hope you can join us for the 2010 Winter Dialogue in Las Vegas: Customer Experience Innovation: B2C, B2B and Beyond.